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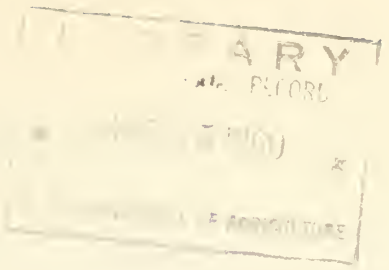

MARKETING MARGINS FOR DAIRY PRODUCTS

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MARKETING MARGINS FOR DAIRY PRODUCTS 1/

Annual average marketing margins for dairy products did not change significantly from 1958 to 1959. Retail prices, farm values, and marketing margins for fluid milk and evaporated milk were about the same in both years. For butter, retail prices, farm values, and marketing margins changed little during January-August 1959 but rose substantially during September-December. An increase in the farm value of American processed cheese during September-December 1959 was offset by a decrease in the marketing margin, leaving the retail price about the same. Changes in marketing practices have reduced the weighted average of retail prices of fluid milk actually paid by consumers. The following article describes these changes.

Fluid Milk

Retail prices, marketing margins, and farm values for fluid milk averaged about the same in 1959 as those of a year earlier (table 10). 2/ The annual average retail price paid by urban consumers for single quarts of milk was 24.7 cents, an increase of but 0.8 percent from 1958 -- the smallest increase in the annual average since 1955. The farm value in 1959 remained unchanged at 10.7 cents per quart; this was 0.8 cent higher than the low of 1950, 1.2 cents lower than the high in 1952, but the same as the average for the 13-year period 1947-59. The slight increase in retail price and the unchanged farm value resulted in a slight drop in the farmer's share of the retail price. The marketing margin in 1959 was 14.0 cents, 0.2 cent higher than in 1958 -- the smallest increase since 1950. The average annual rate of increase for the 1950-59 period was about 4 percent.

Prices Paid by Household Consumers

Although retail prices in table 10, which are mainly for single-quart sales, increased 1.4 cents, the weighted average price per quart paid by household consumers for milk decreased slightly during the last 4 years. The price of milk in each individual container size increased but the weighted average price decreased because of (1) shifts to multiple-quart containers in which milk usually sells at lower prices per quart than in single-quart containers, (2) shifts away from premium-priced milk to regular homogenized milk (fig. 5), and (3) shifts from home delivery to store purchase for which prices paid by household consumers are usually lower than for home-delivered

1/ Prepared by D. D. MacPherson, Agricultural Economist, and Helen V. Smith, Statistical Assistant, Mktg. Econ. Res. Div., Agr. Mktg. Serv.

2/ The terms marketing margin and farm-retail spread are used interchangeably to define the charges made by marketing agencies for assembling, processing, transporting, and distributing dairy products. These charges, in total, are the difference between the retail price and the farm value or payment farmers received for the equivalent quantity of the raw product.

Table 10.--Fluid milk: Average annual retail price per quart in urban areas, farm value, marketing margin, and farmer's share of retail price, United States, average 1947-49, and annual 1950-59 1/

Year	Retail price	Farm value	Marketing margin	Farmer's share
	Cents	Cents	Cents	Percent
1947-49	20.1	10.6	9.5	53
1950	19.8	9.9	9.9	50
1951	22.1	11.2	10.9	51
1952	23.2	11.9	11.3	51
1953	22.8	11.1	11.7	49
1954	22.4	10.4	12.0	46
1955	22.5	10.2	12.3	45
1956	23.3	10.6	12.7	45
1957	24.2	10.9	13.3	45
1958	24.5	10.7	13.8	44
1959	24.7	10.7	14.0	43

1/ Estimate of retail price is basically a single-quart price computed from data published by the Bur. of Labor Statistics. Farm value is computed from data published by Agr. Mktg. Serv.

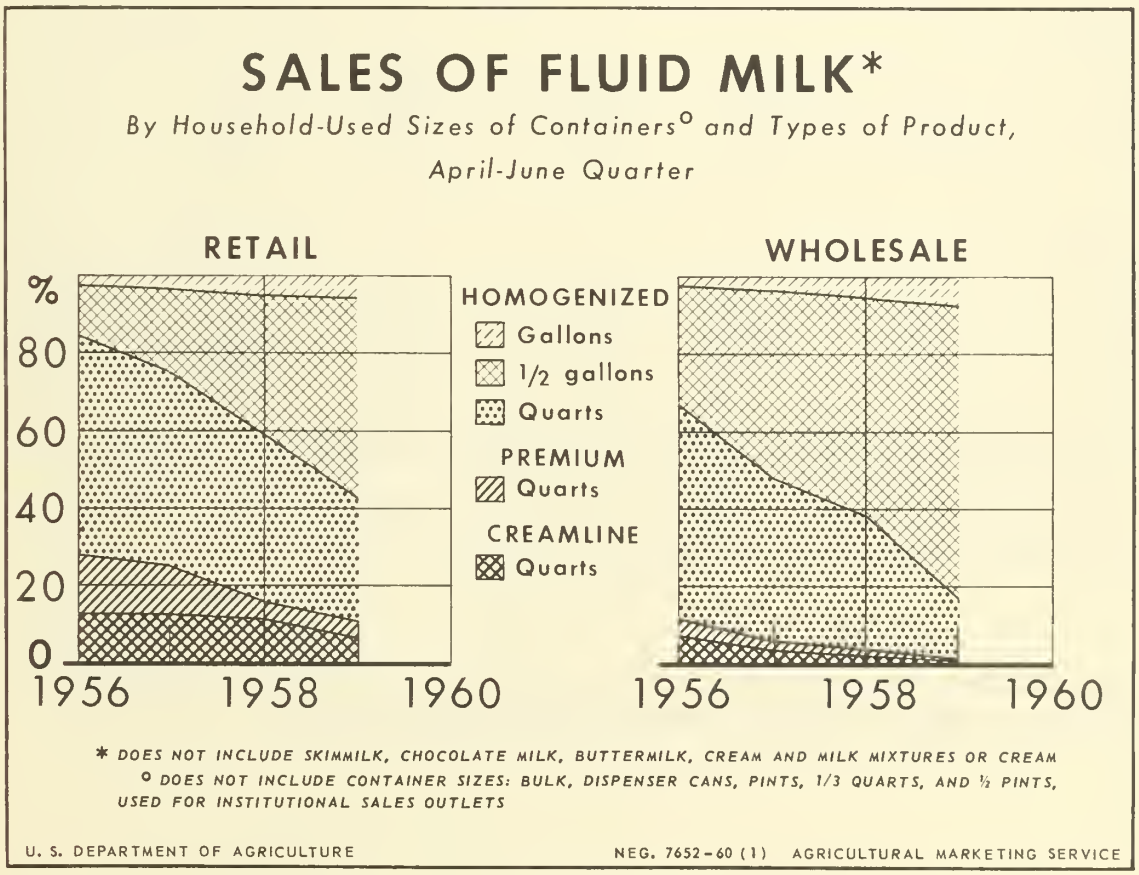

Figure 5

milk. These conclusions are based on a study of the operations of a group of representative fluid milk processing and distributing firms. 3/ Of the milk delivered to homes, the proportion in multiple-quart containers increased from 15 percent in 1956 to 57 percent in 1959 and sales of premium-priced milk decreased from 27 percent in 1956 to 10 percent in 1959. Home-delivery sales as a percentage of total sales decreased from 42 percent in 1956 to 37 percent in 1959. The shifts to multiple-quart containers and away from premium-priced milk resulted in a decrease of 0.4 cent per quart in home-delivery prices (table 11); this decrease combined with the effects of the shift to store purchases resulted in a decrease of at least 0.5 cent in the average per-quart price paid by consumers.

The slight decrease in the weighted average price accounts for most of the decrease in the value of products sold by fluid milk distributors. Sales value per 100 pounds of milk processed was $11.22 in 1956, $11.15 in 1957, $11.05 in 1958, and $11.07 in 1959.

Table 11.--Fluid milk: Listed selling prices per quart, by size of container, April-June 1956-59 1/

Type of sale and period	Homogenized			Premium-quarts	Creamline-quarts	Weighted average
	Gallons	1/2 gallons	Quarts			
	Cents	Cents	Cents	Cents	Cents	Cents
Retail Apr.-June						
1956	20.9	23.4	24.3	26.1	24.2	24.4
1957	21.3	23.0	24.1	27.0	24.1	23.9
1958	20.8	22.9	24.4	27.5	24.3	24.1
1959	21.1	23.3	25.3	27.0	25.0	24.0
Wholesale Apr.-June						
1956	17.7	20.3	21.8	23.9	22.9	21.1
1957	18.3	21.0	22.1	23.7	22.5	21.0
1958	18.4	20.7	22.6	24.7	22.6	21.3
1959	18.7	20.7	22.5	25.6	22.7	20.9

1/ Milk only; does not include skimmed milk, chocolate milk, buttermilk, cream and milk mixture, or cream.

2/ Includes only sizes of containers used in households; does not include bulk dispenser cans, pints, 1/3 quarts and 1/2 pints used for institutional sales outlets.

3/ Milk Distributors Sales and Costs, July-September 1959, by D. D. MacPherson and Helen V. Smith, MDSC-12, Mktg. Econ. Res. Div., Agr. Mktg. Serv.

Costs and Margins for Fluid Milk Distributors

Fluid milk distributors' costs of $10.72 per 100 pounds of raw milk processed in 1959 were at about the same level as in 1958. Costs of raw materials and costs of wages, salaries, and commissions increased some from 1958 (table 12). These increases, however, were more than offset by slight decreases in costs for containers and facilities (rent, repairs, and depreciation). Net profits (before income taxes) increased from 33 cents per 100 pounds in 1958 to 37 cents in 1959; on a per quart basis this was an increase from 0.71 cent to 0.79 cent.

Table 12.--Trends in sales value, raw material costs, operating expenses, and margins per unit of product for a selected group of milk distributors, 1952-59

(1952 = 100)

Item	1952	1953	1954	1955	1956	1957	1958	1959 1/
Net sales receipts	100	98	94	97	99	98	98	99
Cost of raw materials for processing and resale:								
Raw milk and cream	100	93	87	88	91	88	86	86
Other	100	105	100	109	102	101	98	112
Total cost of raw materials	100	94	89	90	92	90	88	90
Gross margin	100	104	103	107	109	111	112	114
Operating expenses:								
Salaries, wages, and commissions	100	102	103	106	113	116	119	122
Containers	100	103	108	117	120	118	117	115
Operating supplies	100	107	117	107	93	97	97	97
Rent, repairs, and depreciation	100	104	114	120	128	134	136	130
Other expenses	100	102	106	111	113	111	115	117
Total operating expenses	100	103	106	110	114	117	118	119
Net margin before income taxes	100	113	77	77	69	71	63	69

1/ Preliminary.

Delivery costs accounted for most of the increases in total unit operating costs during 1955-58. In the 4-year period total operating costs increased about 7 percent; processing costs increased 1.0 percent but delivery costs increased 12 percent. These data show that improved technology has offset most of the increases in employment cost rates and facility costs in the processing function, but has been less effective in holding down costs in the delivery function where the cost of labor is such a large part of the total.

Manufactured Dairy Products

Cheese

Farm values of American processed cheese increased during September-November 1959; retail prices remained about the same, and marketing margins decreased. In this period, wholesale Cheddar cheese prices were, for the first time since 1952, significantly higher than support levels -- in December they were 10 percent higher. Improved wholesale prices were not reflected in higher retail prices. For the year 1959, the average retail price of American processed cheese was less than 0.2 cent above the 58.0 cents per pound for 1958. For the year the farm value was the same as the 28.1 cents for 1958, and the December farm value was 0.7 cent above the 28.4 cents of a year earlier. The farm value in 1959 was 48 percent of the retail price, the same as in 1958.

Cheese production in Wisconsin, the major cheese-producing State, tends to be highly integrated. A study of the marketing of 12 lots of Wisconsin cheese showed that none moved through independently owned firms at every step. 4/ In one case, the following steps were integrated within a cooperative firm: Production of milk, manufacturing, assembling, processing, wholesaling, and jobbing. Assembling-wholesaling-jobbing and jobbing-retailing were frequent combinations of functions. In no case was any marketing function carried on exclusively by independent firms.

The same study showed that type of retail outlet and of package are important influences in returns to farmers, marketing charges, and retail price (fig. 6). Degree of integration was not important. For the 2-pound loaf sold in supermarkets at an average retail price of 49.8 cents per pound, marketing charges were 22.3 cents per pound and return to farmers was 27.5 cents. The lower priced "1/2-pound sliced" was sold in supermarkets at an average retail price of 60.0 cents per pound; marketing charges were 32.9 and return to farmers 27.1 cents. The higher priced 1/2-pound sliced was sold in independent stores at an average retail price of 68.8 cents; marketing charges were 42.9 and farm value 25.9 cents.

4/ Marketing Costs and Margins for Selected Lots of Wisconsin Cheddar Cheese, Hugh A. Cook and J. Kenneth Little, Res. Bul. 210, Wisc. Agr. Expt. Sta., May 1959.

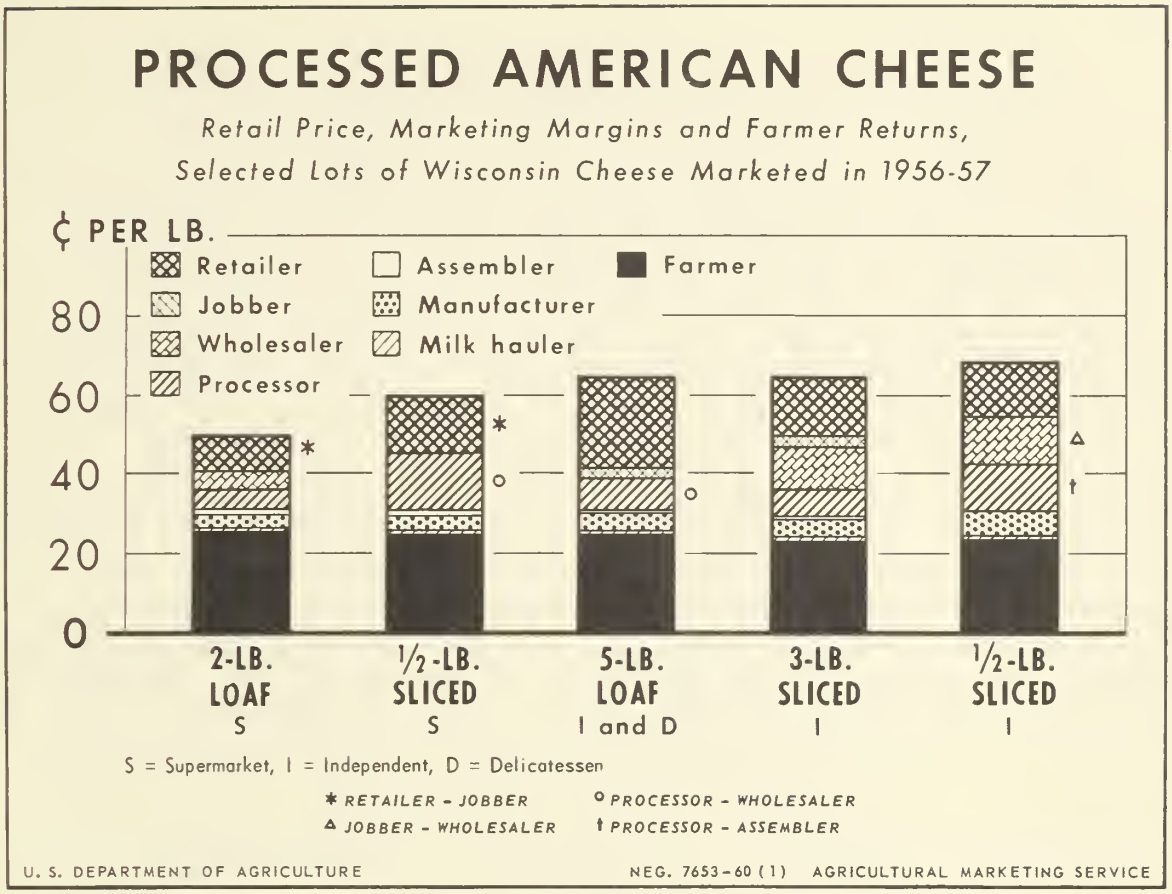

Figure 6

Butter

The retail price for butter averaged 75.2 cents per pound in 1959, 1 cent higher than in 1958 chiefly because prices rose substantially during September-December. In December the retail price at 78.5 cents was 4.1 cents higher than a year earlier. More than half of this higher price was reflected in the farm value for butter, which was 54.2 cents in December 1959 as compared with 51.9 cents the year before; the marketing margin in December was 1.8 cents higher than a year earlier. The retail segment of the marketing margin was 16.6 cents in December 1959, up 2.5 cents from a year earlier; the wholesale-farm margin was 7.7 cents, down 0.7 cent.

The improved prices for butter and, to a lesser extent, for cheese reflect the fact that these products are, to a considerable extent, residual uses for milk. In 1959, due mainly to increase in population, more milk was utilized in higher value uses, particularly fluid milk, while total milk production was down slightly from 1958. As a consequence, the quantity of milk used for butter and cheese decreased by 4 percent.

Nonfat Dry Milk

The average retail price of instant nonfat dry milk rose 0.1 cent a pound in 1959 from the 1958 average. In the same period, the average farm value of the equivalent quantity of skim milk dropped 0.3 cent. Thus, the marketing margin rose 0.4 cent, while the farmer's share of the retail price dropped from 16 to 15 percent.

Most nonfat dry milk for household use is distributed under private brands of a relatively few firms. Information obtained in a study of the costs of processing and distributing instant nonfat dry milk shows that the heavy promotion and advertising costs involved in development and retaining a market for private brands have made it extremely difficult for some firms to enter the field.

Evaporated Milk

In 1959, the average retail price, marketing margin, and farm value for evaporated milk remained essentially unchanged from 1958. Farm value was 6.2 cents in both years, marketing margin increased 0.1 cent to 9.0 cents and retail price increased 0.1 cent to 15.2 cents per 14 1/2-ounce can. The farm value was 41 percent of the retail price in both 1958 and 1959.

Earlier articles on marketing margins for dairy products reprinted from The Marketing and Transportation Situation:

"Marketing Margins for Dairy Products," AMS-297, Jan. 1959.
"Marketing Margins for Dairy Products," AMS-226, Jan. 1958.
"Marketing Costs and Margins for Dairy Products," AMS-172, Feb. 1957.
"Marketing Margins for Dairy Products," AMS-113, Jan. 1956.